



**Office of Health Plan Administration**  
P.O. Box 720724  
Sacramento, CA 94229-0724  
Telecommunications Device for the Deaf - (916) 795-3240  
(916) 795-3579, FAX (916) 795-1513

October 21, 2008

## **AGENDA ITEM 9a**

### **TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE**

- I. SUBJECT:** Long-Term Care Program Valuation Report
- II. PROGRAM:** Long-Term Care Program
- III. RECOMMENDATION:** Staff recommends that the Board accept the June 30, 2008, Long-Term Care Program Valuation report as prepared by United Health Actuarial Services, Inc.

Staff also recommends implementing the recommendations outlined on Page 3 of this Agenda Item.

### **IV. BACKGROUND:**

On January 12, 2006, United Health Actuarial Services, Inc. (UHAS) was retained by the California Public Employees' Retirement System (CalPERS) Long-Term Care (LTC) Program to perform actuarial services including annual valuations.

UHAS developed their 2008 annual valuation (Attachment 1) by using the 2007 valuation as their starting point. The 2007 annual valuation was completed just prior to the implementation of the Board-approved rate increase. The deficit reported in the 2007 valuation was nearly forty-three percent (42.86%), while the deficit after the rate increase was just over five and a half percent (5.69%).

This agenda item provides information with respect to the following items relating to the Long-Term Care Program:

- Summary of 2008 Annual Valuation Report
- Potential Strategic Options - Discussion of Operational and Results Management

## **V. ANALYSIS:**

### **Summary of 2008 Annual Valuation Report**

Briefly, the 2008 valuation process can be summarized as follows:

- UHAS compared assumptions from the 2007 valuation to the actual experience through 6/30/08 and made appropriate modifications for this valuation.

*Impact: All assumptions were confirmed or revised, as appropriate, based on the results of their analyses.*

- UHAS refined the development of the morbidity assumptions to more directly incorporate actual experience by issue year and underwriting style.

*Impact: After much review and consideration, the new method described above was used as the basis for this valuation.*

- UHAS utilized projected asset earnings returns from CalPERS actuarial staff to verify the assumed return on assets/discount rate.

*Impact: UHAS confirmed the reasonableness of the base case discount rate of nearly eight percent (7.79%).*

Please note that while UHAS reviewed all valuation assumptions, their primary focus again this year was on assumed morbidity.

Given the above information, UHAS developed projected values using a serialtim projection model, and they used those projected values along with current program financial information to determine the financial standing of the program.

### Projection Results

The results of the base case projection scenario are summarized in the table below. The 2007 valuation results are shown below for comparative purposes.

<b>Projection Scenario – Base Case Summary of Projected Values Inforce (Current Policies) Business as of 6/30/07 and 6/30/08 Present Values @ 7.79% (\$ in Millions)</b>		
<b>Component</b>	<b>Present Value as of 6/30/2007</b>	<b>Present Value as of 6/30/2008</b>
<b>1. Present Value of Future Benefits</b>	<b>\$4,659.7</b>	<b>\$4,649.3</b>
<b>2. Present Value of Future Expenses</b>	<b>\$290.3</b>	<b>\$303.7</b>
<b>3. Present Value of Future Premiums (PVFP)</b>	<b>\$1,919.1</b>	<b>\$2,523.0</b>
<b>4. Valuation Liabilities (= 3 – 1 – 2)</b>	<b>(\$3,030.9)</b>	<b>(\$2,430.0)</b>
<b>5. Valuation Assets</b>	<b>\$2,208.3</b>	<b>\$2,317.6</b>
<b>6. Valuation Surplus/(Deficit) (= 5 + 4)</b>	<b>(\$822.6)</b>	<b>(\$112.4)</b>
<b>7. Surplus/(Deficit) as a % of PVFP</b>	<b>(42.86%)</b>	<b>(4.45%)</b>

Please note that given the range of scenario testing presented in the 2008 valuation, projection results varied widely.

The significant improvement in the Program's financial condition is a direct result of the Board-approved corrective rate actions implemented after the June 30, 2007 valuation. The impact of considerable investment losses experienced over the last fiscal year was offset by the impact of reductions in assumed morbidity resulting from the implementation of the new morbidity assumption development method described earlier.

### Recommendations

Consistent with previous Board-approved recommendations, significant corrective action has been implemented over the last two years. Given that and consistent with 2007 recommendations, UHAS recommends:

- Further development of a detailed monitoring/reporting system that compares all key emerging experience items against (at least) pricing assumptions and corresponding assumptions from the most recent valuation(s);

- Continue to work closely with CalPERS actuarial staff in determining asset returns, including the development of a standard cash flow testing process to help ensure that the magnitude and timing of liability obligations are supported by asset cash flows under a variety of asset scenarios; and,
- Continue to work closely with CalPERS actuarial and LTC program staff to recommend operational and results-management objectives and associated strategies/tactics for use in program management going forward.

**VI. STRATEGIC PLAN:**

This Item relates to Strategic Goal X: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

**VII. RESULTS/COSTS:**

Costs associated with the recommendations outlined above are within the current terms of the agreement.

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Ellen Badley, MHA, Chief  
Office of Health Plan Administration

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Gregory A. Franklin  
Assistant Executive Officer  
Health Benefits Branch

Attachment